

Maricopa County Policy Policy for Prepaid Expenses		Number: A2511
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Initiated by: Department of Finance	Approved by: Maricopa County Board of Supervisors & Special Districts	Revised:

A. Purpose

The purpose of the Maricopa County Prepaid Expense Policy is to provide guidelines to County Departments and County District(s) including the Flood Control District, Library District, and Stadium District for the establishment, appropriate usage, and reporting of prepaid expenses.

This policy defines prepaid expenses. It also details the overall responsibilities and processes to be followed by departments when utilizing prepaid expenses. This policy also offers specific information and detailed procedures to be followed.

Department directors and administrators are responsible for ensuring all personnel are aware and comply with the requirements of this policy.

This policy does not replace or supersede specific policies for prepaid items that are listed in the Maricopa County General Travel Policy as it pertains to the advance payment for County travel.

B. Definitions

Department – Refers to the department, office, or agency under budgetary responsibility and oversight of the Maricopa County Board of Supervisors and the Maricopa County District(s) Board of Director(s). The County Districts include the Flood Control District, Library District, and Stadium District.

Consumption Method of Accounting – The method under which purchases are debited to a prepaid asset account and are recorded as expenditures or expenses when used.

GASB – Governmental Accounting Standards Board. The entity created to establish standards of financial accounting and reporting for state and local governmental entities.

General Fund – County's primary operating fund.

Governmental Funds – County General Fund, special revenue funds, debt service funds, and capital projects funds.

Fund – A fiscal and accounting entity with a self-balancing set of accounts segregated for the purpose of carrying out specific activities or obtaining certain objectives in accordance with regulations, restrictions, or limitations.

OMB Circular A-133 – Issued pursuant to the Federal Single Audit Act. This circular sets the standards for Federal Single Audits, outlines the auditee and auditor responsibilities, and identifies Federal grant compliance requirements.

Prepaid expense – Amounts paid in advance for a benefit not yet received. This type of expense normally includes costs paid in one fiscal year (or period) that benefits a future year (or period).

Proprietary funds – Include enterprise funds and internal service funds. Enterprise funds report activity for which a fee is charged to external users for goods or services. Internal service funds operate on a cost reimbursement basis and generally provide services to only other County departments.

Purchases Method of Accounting – The accounting method under which purchases are recorded as expenditures when acquired.

C. Background

Under normal circumstances, goods and services are paid for upon receipt. There are a limited number of occasions when paying for a service or item before delivery (or use) of an item (or service) would be necessary. This type of transaction would be classified as a prepaid expense. Prepaid expenses can be defined as costs paid in one fiscal year or period that benefit a future year or period.

The Governmental Accounting Standards Board (GASB) has issued guidance for the reporting and treatment of expenses. GASB further specifies that if the governmental agency utilizes the *consumption method* of accounting for purchases, then the purchases are debited to a prepaid asset account and are recorded as expenditures or expenses as consumed. Under the consumption method, prepaid expenses are accounted for in the period that the benefit was received, and therefore, the initial purchase is recorded as a prepaid item on the balance sheet. The consumption method follows the accounting matching principal pertaining to the recognition of expenditures/expenses. Maricopa County utilizes the consumption method of accounting for prepaid expenses for proprietary funds (i.e., Internal Service Funds).

An alternate method of accounting, known as the *purchases method* is also permitted under GASB. Under this method of accounting, purchases are recorded as expenditures when acquired.

The accounting method used by the County is determined by fund type (i.e., governmental funds or proprietary funds). The County utilizes the purchases method of accounting for prepaid expenditures in governmental funds and the consumption method of accounting for propriety funds.

D. Guidelines

Maricopa County's governmental funds follow the modified accrual basis of accounting and utilize the purchases method of accounting for expenditures; therefore, the County expenses purchases at the time the purchase is made. Additionally, the County's normal purchasing procedures require that purchases be paid for only when a product or service has been received.

The following are examples of prepaid purchases that would be considered acceptable for governmental funds. *These types of purchases would be expensed at the time of purchase.*

- Nominal expenditures including subscriptions, professional associations, membership fees, conference fees, etc. These purchases are generally nominal amounts, made in advance, and provide a benefit over time.
- Prepaid postage metering and prepaid bulk mail if used by a County department.
- Prepayment of licensing agreements that benefit future periods. Examples may include computer software licensing agreements, electronic resources such as eBooks, or other subscriptions.
- Prepayment of warranties that benefit future periods. Examples may include vehicle and computer warranties.

On the other hand, the County's proprietary funds follow the full accrual basis of accounting. This accounting method allows for the consumption method of accounting to be used. The consumption method of accounting for expenses requires that purchases be recorded as an asset (prepaid asset) when purchased and then expensed when consumed.

The following are examples of prepaid purchases, which would be recorded as a prepaid asset at the time of purchase and are acceptable for proprietary funds:

- County-wide medical insurance and other health care insurance policies, etc., that provide a benefit over a period of time (generally one year), if applicable. These types of prepaid assets would generally be purchased by the County's Employee Health Initiative Department (Internal Service Fund).

- County-wide liability insurance policies including general liability, automobile liability, medical malpractice insurance, etc., that provide a benefit over a period of time (generally one year), if applicable. These types of insurance policies would generally be purchased through the County's Risk Management Department (Internal Service Fund).

Inventory items used in the normal course of business are not considered part of this policy.

The following are normally **not** an acceptable prepaid purchase regardless of the type of fund (governmental fund or proprietary fund).

- Real Estate Leases – The real estate contracts usually require the County to pay in advance on a month-to-month basis. The contract will govern when the vendor will be paid. *Departments should not pay vendors in advance of the contracted agreement.*
- Grant funded programs should not prepay any expenditure including payments to subrecipients. Federal OMB Circular A-133 Appendix B – Compliance Supplement, cash management requirements require subrecipients to be funded on the same basis and conform to the same standards of timing that apply to the County.
- Prepayment for goods and/or services not yet received or provided by vendor(s). Examples include, but are not limited to, legal services including retainers, expert witnesses, contract employees, consulting services, contracted services, etc.

For contracts that extend over a period of time, vendors may invoice the County using a percentage of completion, hourly based on an established hourly rate, or other acceptable methods in which the County does not pay for goods and/or services not received.

E. Procedures

Department Guidelines

Departmental management should develop an internal program to document and report any allowable prepaid expenses made in the current year that will be used in a future period. A report listing all prepaid items will need to be created and submitted to the Department of Finance at the end of each fiscal year. This requirement is included in the County-wide Fiscal Year End Closing Package as it pertains to the financial statement audit and is updated annually.

Generally, prepayments should only be made for items described previously. If departmental management feels that an expense should be prepaid, and it is not

described previously in this policy as an acceptable prepaid expense, they can request an exemption in writing to the Department of Finance. The request should include a description of the transaction to be prepaid and the business rationale for this request. For example, if management can demonstrate that the County would realize substantial savings if a purchase was prepaid, an exemption may be permitted.

Department of Finance Guidelines

Department management will submit to the Department of Finance a written request for an exemption if they believe that an expense should be prepaid but is not similar in nature to those described previously.

The Department of Finance will work with department management to determine if the prepayment of an expense would be in the County's best interest. If the specific prepayment is approved, the Department of Finance will issue a memo to the requesting department indicating the approval and list any specific reporting requirements. This memo must be attached to the invoice when sent to Finance for payment. The invoice, prepaid expense approval memo, and all supporting documentation will be retained for the required retention period.

F. Related Documents

- Codification of Governmental Accounting and Financial Reporting Standards—Published by the Governmental Accounting Standards Board, June 30, 2007, (1600.127, page 85)
- Federal OMB Circular A-133 (Appendix B – Compliance Supplement)
- Uniform Accounting Manual for Arizona Counties (UAMAC) issued by the Arizona Auditor General
- Maricopa County Policy Number A2313—General Travel Policy

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